

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

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FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC PRIORITY 4277

C O N F I D E N T I A L KUALA LUMPUR 4674

E.O. 11652: GDS

TAGS: ENRG, MY

SUBJECT: PETROLEUM: ASSESSMENT OF NEGOTIATIONS

REF: STATE 197489

1. PROGRESS OF PETROLEUM NEGOTIATIONS IS DIFFICULT TO ASSESS BECAUSE EVERYONE IS PLAYING CARDS CLOSE TO CHEST. MOTIVATIONS AND INTENTIONS OF PETRONAS AND ITS BOSS, TENGKU RAZALEIGH ARE PARTICULARLY MURKY. WE HAVE BEEN TOLD THAT PRIOR TO PM'S JULY 28 MEETING WITH PETROLEUM INDUSTRY REPS, RAZALEIGH PROPOSED TO PM HARDLINE STATEMENT INCLUDING THREAT OF BUY-OUT IF AGREEMENT NOT REACHED BETWEEN COMPANIES AND PETRONAS. PM DISAGREED WITH PROPOSAL. RAZALEIGH THEN THREATENED TO RESIGN IN PROTEST IF HIS STATEMENT NOT USED. PM ACQUIESCED AND STATEMENT WAS USED IN JULY 28 MEETING. WE HAVE HEARD THIS FROM TWO SOURCES WHO HAD GOOD, BUT SECONDHAND ACCESS. WE BELIEVE IT TO BE TRUE. WE DO NOT KNOW WHY THE PM GAVE IN BUT SPECULATE THAT HE DID NOT WANT TO TAKE ON RAZALEIGH ON SUCH A NATIONALISTIC ISSUE AT THIS TIME. CERTAINLY A THREAT OF NATIONALIZATION TO MOVE NEGOTIATIONS FORWARD DOES NOT ACCORD WITH OUR GENERAL VIEW OF PM'S STYLE. WE CAN NOT ABSOLUTELY EXCLUDE, OF COURSE, THE POSSIBILITY THAT HE HAS BEEN IN PART PERSUADED BY RAZALEIGH. WE HAD ALSO INITIALLY
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CONSIDERED THE HARDLINE APPROACH, INCLUDING THE JULY 28 REVIEW

OF NEGOTIATIONS WHICH PLACED ALL BLAME ON THE COMPANIES, POSSIBLY TO BE A PART OF A MALAY SCENARIO TO EASE RAZALEIGH OUT OF PETROLEUM AFFAIRS, BUT AS YET THERE IS NO EVIDENCE TO SUPPORT THIS.

2. NOTWITHSTANDING THE VERY FORTHCOMING AND HELPFUL STATEMENTS BY THE PM PRIVATELY WITH EXXON AND THE SLIGHT BACKTRACKING ON "AGREEMENT-IN-PRINCIPLE", BOTH EXXON AND SHELL TELL US THAT THERE HAS BEEN NO IMPROVEMENT IN EITHER THE TONE OR SUBSTANCE OF NEGOTIATIONS AND THAT, AT LEAST IN THE CASE OF EXXON, NEW SUGGESTIONS HAVE BEEN REJECTED OUT OF HAND BY PETRONAS. BOTH COMPANIES SUGGEST THAT IT MAY BE TOO SOON TO EXPECT A CHANGE. HOWEVER, IT SEEMS TO US UNLIKELY THAT MEANINGFUL NEGOTIATIONS WILL OCCUR AS LONG AS RAZALEIGH CONTROLS PETRONAS. HE HAS TAKEN VERY HARD POSITIONS AND HAS SHOWN NO INTEREST IN REACHING AGREEMENT EXCEPT ON TERMS WHICH ARE CHARACTERIZED BY EXXON AS IMPOSSIBLE. SEVERAL SOURCES HAVE SUGGESTED THAT HE WANTS THE NEGOTIATIONS TO FAIL BECAUSE OF HIS BELIEF OR DESIRE THAT THE INDUSTRY SHOULD BE NATIONALIZED, AN EVENT WHICH COULD BE PARLEYED INTO A MORE FAVORABLE POLITICAL OUTCOME FOR RAZALEIGH IN THE 1978 UMNO GENERAL ASSEMBLY ELECTIONS.

4. IT IS CLEAR THAT GOVERNMENT OFFICIALS, OTHER THAN RAZALEIGH, HAVE NOT BEEN WELL INFORMED ON PETROLEUM NEGOTIATIONS. EXXON IS PROVIDING A SHORT PAPER (COPY BEING POUCHED TO EA/IMS) AND ORAL BRIEFING TO SELECTED MINISTERS AND OTHER SENIOR OFFICIALS SO THAT GOVERNMENT WILL HAVE THE FACTS. AS REPORTED, THIS IS IN RESPONSE TO SUGGESTION BY MINISTER MUSA HITAM WHO LED ATTACK ON MANAGEMENT SHARES ARTICLE IN MAY 28, 1975 CABINET MEETING WHICH RESULTED IN UNPUBLICIZED DECISION NOT TO IMPLEMENT ARTICLE.

4. WE HAVE BEEN INFORMED THAT THE GOM POSITION ON PETROLEUM NEGOTIATIONS WAS DISCUSSED AT THE UMNO SUPREME COUNCIL MEETING ON AUGUST 8, THAT THE SC WAS NOT PERSUADED BY RAZALEIGH THAT NATIONALIZATION WAS THE DESIRABLE WAY TO GO, THAT THE SC WANTS THE MOST FAVORABLE TERMS POSSIBLE BUT THAT IT ALSO WANTS A DEAL, THAT SOME SC MEMBERS SENSE THAT RAZALEIGH IS USING PETROLEUM ONLY TO FURTHER HIS PERSONAL POLITICAL AMBITIONS AND THAT THE SC DESIGNATED A SUB-COMMITTEE TO MAKE CONFIDENTIAL

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ITS VIEWS KNOWN TO GOVERNMENT AND TO KEEP AN EYE ON NEGOTIATIONS. IN THE SC MEETING, THE PM REPORTEDLY DID NOT ENTER THE DEBATE, BUT PLACED THE ENTIRE BURDEN OF DEFENSE OF NATIONALIZATION ON RAZALEIGH.

5. COMMENT: THE ABILITY OF THE MODERATES IN GOVERNMENT TO ARGUE PERSUASIVELY AGAINST RAZALEIGH'S POSITION MAY INCREASE AS FACTUAL INFORMATION BECOMES AVAILABLE TO THEM, ALTHOUGH THIS

WILL TAKE TIME. (IN THE CASE OF THE MANAGEMENT SHARES ARTICLE OF THE PETROLEUM AMENDMENT ACT, WHICH EVOKED GREATER REACTION FROM THE FOREIGN COMMUNITY, IT TOOK TWO FULL MONTHS FROM THE PROMULGATION OF THE ACT BEFORE THE MATTER WAS EFFECTIVELY CONFRONTED IN CABINET.) IN THE MEANTIME, RAZALEIGH IS BUSY BUTTONHOLING PEOPLE TO PERSUADE THEM THAT NATIONALIZATION OF THE PETROLEUM INDUSTRY WOULD NOT HAVE AN ADVERSE AFFECT ON PRIVATE INVESTMENT IN OTHER SECTORS. REACTION TO POSSIBLE NATIONALIZATION IS HARD TO JUDGE, BUT THERE IS REASON TO BELIEVE THAT LOCAL INVESTORS, AT LEAST, ARE MORE CONCERNED WITH TYA INDUSTRIAL COORDINATION ACT, AND TO A LESSER DEGREE WITH THE MANAGEMENT SHARES ARTICLE, THAT WITH HOW UPSTREAM PETROLEUM IS HANDLED. TO ARGUE PUBLICLY AGAINST RAZALEIGH PUTS ONE IN THE POSITION OF DEFENDING THE DEVIL, I.E. FOREIGN OIL COMPANIES, AGAINST THE ARCHITECT OF MALAYSIA'S "BUMIPUTRA" (PRO-MALAY) ECONOMIC POLICIES. RAZALEIGH HAS POLITICAL ENEMIES IN THE CABINET BUT MOST PRESUMABLY WOULD WANT TO WAIT AND SEE HOW THINGS GO.

6. WE CONTINUE TO BELIEVE THAT THE PM, DEEPLY CONCERNED THAT AN UNFAVORABLE INVESTMENT CLIMATE WILL UNDERMINE THE SECCES OF THE THIRD MALAYSIA PLAN, DOES WANT THE COMPANIES TO REACH AGREEMENT WITH PETRONAS. WHETHER HE HAS IN MIND A CAREFULLY PLANNED SCENARIO TO ACHIEVE THIS OR WHETHER IT WILL BE DRIVEN BY THE COURSE OF EVENTS, REMAINS TO BE SEEN.
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